Good MornING Asia - 7 February 2018

Appreciating Chinese yuan supports forecast of continued rise in China's foreign exchange reserves. The solid consensus of no change to Indian central bank policy today suggests no light at the end of the tunnel for the sovereign bond market. Upside inflation surprise raises the likelihood of Philippines central bank policy tightening soon

In this bundle

China

Foreign reserves pile up by strong yuan

We expect foreign reserves to rise to $3165.0bn in January 2018 from December's $3139.9bn because of fast appreciation of the yuan in the month as...

India

Will India's central bank arrest the bond market selloff?

The Reserve Bank of India's solid consensus forecast to keep monetary policy on hold offers no hope

---

Philippines

Philippines: Monetary policy tightening could be soon due to upside inflation surprise

Upside January inflation surprise of 4%, at the upper end of central bank's (BSP's) forecast of 3.5% to 4%, prompts at least a more hawkish tone...

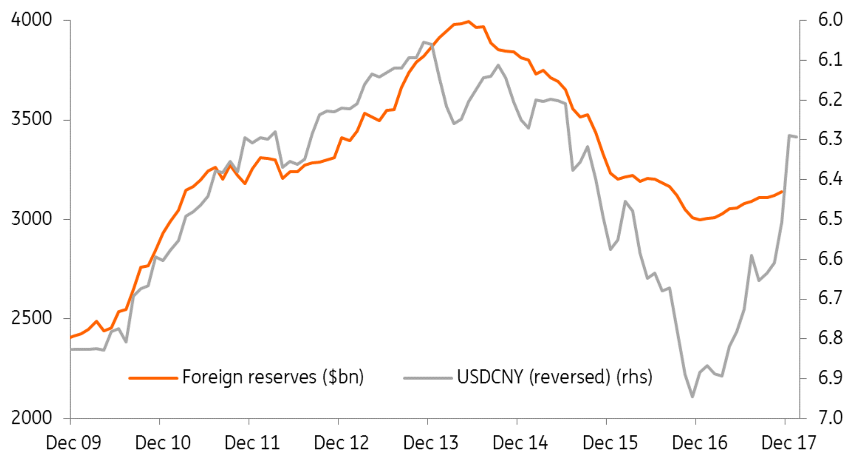
Snap | 6 February 2018 China

Foreign reserves pile up by strong yuan

We expect foreign reserves to rise to $3165.0bn in January 2018 from December's $3139.9bn because of fast appreciation of the yuan in the month as well as from a currency valuation perspective. Though regulators are still worried about capital outflows, we expect more capital inflows later in the year. We keep our forecast of USD/CNY at 6.10 by end-2018.

Source: Shutterstock

China foreign reserves build up with strong yuan



Source: ING, Bloomberg

Foreign reserves would keep rising, thanks to currency appreciation

We expect foreign reserves to rise to $3165.0bn in January 2018 from December's $3139.9bn. The increase should not be a surprise given the fast appreciation of the yuan against the dollar by 3.46% in the month. We expect more capital inflows attracted by the appreciating yuan.

The argument is even stronger if we look at the foreign reserves from a valuation perspective, as the British pound rose 5.1% and the euro rose 3.35% in January 2018. That implies investment gains of the foreign reserves simply by currency appreciation as the foreign reserves are denominated in dollars.

PBoC continues to worry about capital outflows, but not so for us

PBoC continues to worry about capital outflows as we do not see any relaxation of restrictions on outward investments by corporates.

However, we are not particularly worried about capital outflows,except from the fact that there would be capital outflow needs from the anti-corruption campaign in the Mainland.

We have started monitoring to see if the capital flow begins to change direction. Put simply, we believe that with expectations of a strong yuan more money would be coming into China for direct investments and also for portfolio investments.

Some of this could be hot money from the regulators's perspective. And it would be interesting to see how regulators react.

Would the regulator stem hot money inflows through currency intervention in the market or through window guidance? These two would yield different results.

The impact from the first measure (the steps usually hurt the long yuan investors and then after a while hurt the short yuan investors) would be more short-term but those actions could rock the market for a couple of months.

The effect from window guidance could be mild depending on the scale of expected hot money inflows but window guidance usually lasts longer, and is less predicatble from the degree of tightness of the measures.

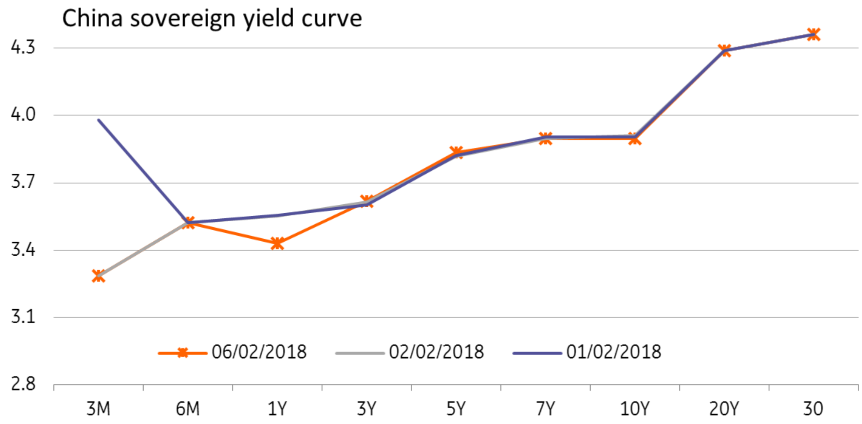
The sell-off of US Treasuries has not affected the Chinese market so far

The dollar rises when the market has started to sell off US Treasuries. Though this affects exchange rates globally, it has little impact so far in the Mainland onshore bond market. Sovereign yields have not moved much.

This should not be explained by the PBoC's liquidity injection, because that aims to smooth short-term rates rather than sovereign yields.

Money freed up from the sale of US Treasuries needs to be reinvested somewhere in the world, and we would keep an eye on the China sovereign and quasi-sovereigns for changes in demand.

Recent sell-off of US Treasuries do not have an impact on the China sovereign curve



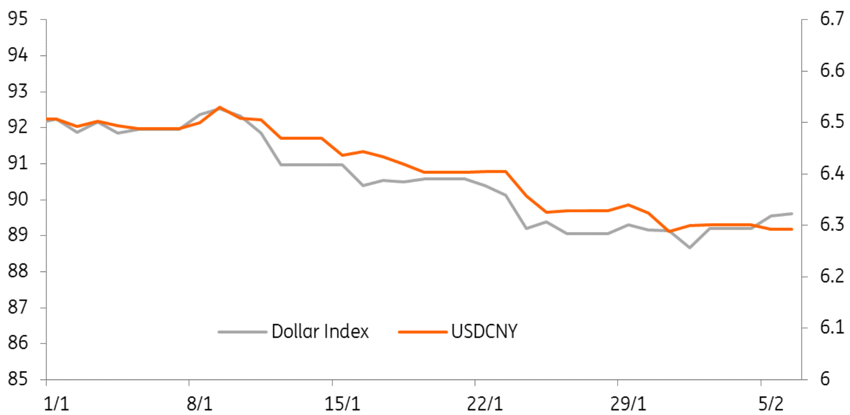
Source: ING, Bloomberg

We keep our forecast of USD/CNY at 6.10 by the end of 2018

Despite the recent rise of the dollar trend, we believe that it is short-lived. Though we expect that the Fed to hike rates in March, we do expect the PBoC to follow the Fed with a slight move of 5bp as interest rates in China are already under upward pressure during the financial deleveraging reform.

Therefore we keep our forecasts of USD/CNY at 6.10 by the end of 2018.

Yuan would keep its strong trend though there are times of reversals from dollar hiccups



Source: ING, Bloomberg

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Article | 6 February 2018 India

Will India's central bank arrest the bond market selloff?

The Reserve Bank of India's solid consensus forecast to keep monetary policy on hold offers no hope

6% RBI repurchase rate

Consensus forecast is no change

Unanimous consensus for on-hold RBI policy

The Reserve Bank of India (RBI) holds its monetary policy meeting on Wednesday, February 7. This is another significant policy event for local markets after last week's Federal Budget. The budget for fiscal year 2018-19 (April-March) failed to arrest the selling pressure on government bonds underway since August last year. And the unanimous consensus behind an on-hold RBI rate policy decision offers no hope either.

3.5%

FY2017-18 fiscal deficit

% of GDP

Worse than expected

Halted fiscal consolidation

The upward revision to the government's budget deficit estimate for FY2017-18 to 3.5% of GDP from the original plan of 3.2% together with the likelihood of another deficit overrun in FY2018-19 – the election year – above the 3.3% plan, has almost halted the consolidation of public finances toward the 3% deficit target, the timing for which is now pushed out to FY2020-21. The announcement spooked the bond market further, sending yields on the 10-year bond up by 18 basis points to an almost two-year high of 7.6%.

RBI policy dilemma

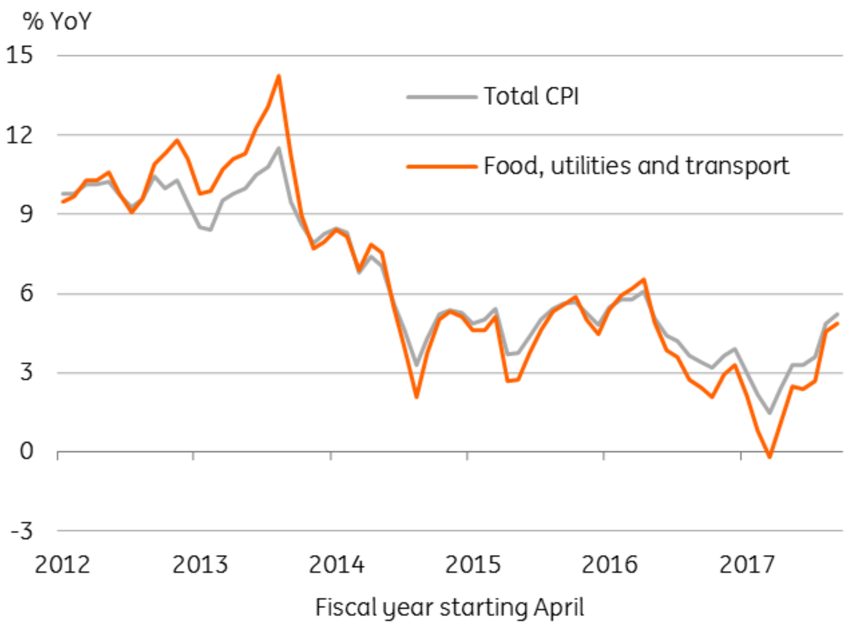
The increase in the government borrowing requirement to finance wider budget deficits complicates the RBI's policymaking while containing inflation remains the primary goal of monetary policy.

At 5.2% year-over-year in December, consumer price inflation has surged past the RBI's 4.2-4.6% forecast for the second half of FY2017-18. While we expect inflation to be sticky downward (resistant to moving down) going forward, the risk of it breaching above the RBI's 2%-6% medium-term policy target cannot be ruled out. The budget announcement of hikes in the minimum support price for agriculture produce will sustain upward pressure on food prices- almost half of the CPI basket. The pass-through of rising global oil prices to domestic fuel prices is an additional factor. And now we have rising inflation expectations from fiscal slippages making the matter worse.

Raising interest rates isn't an option for the RBI

Still, higher interest rates not only worsen the market for government borrowing, they also hurt demand for already-weak private investment. What's more, tighter policy leads to the deterioration of banks' balance sheets, especially those of public sector banks with a high level of non-performing assets. Higher public spending crowding out private spending will be a further hit to the economy's growth prospects. This is not a favourable economic backdrop for the 8% GDP growth that the Modi administration is dreaming about to boost its chances for re-election next year. The central bank can't help to achieve it either by easing monetary policy anytime soon.

Rising consumer price inflation

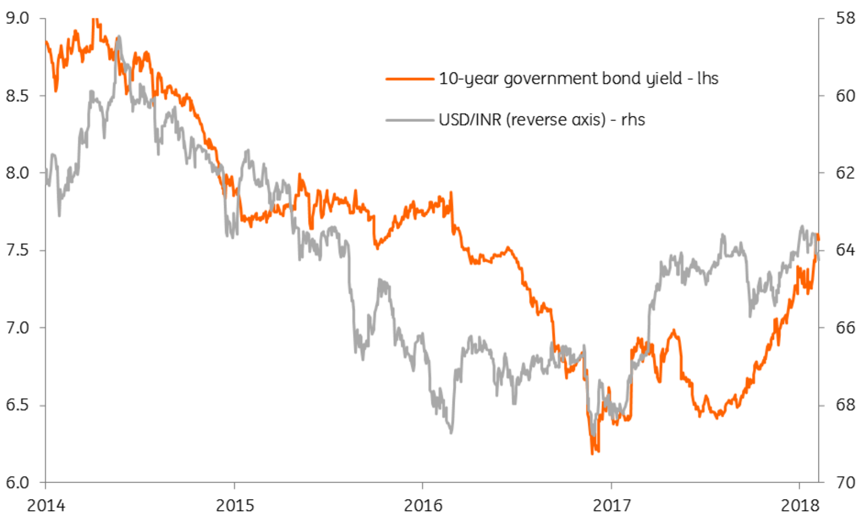


Source: Bloomberg, ING

No near-term respite from selloff in bonds and currency

We reiterate our forecast of no change to the RBI rate policy throughout 2018, which is also the broad consensus view. We expect continued weakening pressure on government bonds and the Indian rupee (INR) this year. We revise our end-2018 USD/INR forecast from 64.5 to 65.0 (spot 64.3, consensus 64.5).

The market selloff



Source: Bloomberg, ING

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Philippines: Monetary policy tightening could be soon due to upside inflation surprise

Upside January inflation surprise of 4%, at the upper end of central bank's (BSP's) forecast of 3.5% to 4%, prompts at least a more hawkish tone at this Thursday's policy meeting

4%

Worse than expected

January headline inflation

Upside surprise also with core inflation of 3.9%

BSP would need to anchor inflation expectations while ensuring the inflation target is met

January's headline and core inflation rates delivered a major blow to inflation expectations. The government reported headline and core inflation rates of 4% and 3.9%, respectively. These are worse than the consensus forecasts of 3.5% and 3.2%, respectively. The data is also at the upper end of the BSP's headline inflation forecast range of 3.5% to 4%. Price pressures are likely to persist for most of this year, which would see higher inflation forecasts. We now expect 2018 inflation to average at least 4%, which is the upper end of the BSP's inflation target range of 2% to 4%. These developments also change monetary policy expectations. We expect a more hawkish BSP at this Thursday's meeting to prepare the way for a rate hike in March from our previous forecast of a May rate hike. We also expect BSP to hike policy rates three times this year from our previous two-rate hike forecast. We believe that BSP needs to act in order to anchor inflation expectations and ensure the achievement of its inflation target.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor

sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist

timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Disclaimer